Agenda Date: April 25, 2019
Item Number: A2

Docket: **UG-190218**
Company: Puget Sound Energy

Staff Elizabeth O'Connell, Regulatory Analyst

Recommendation

Take no action, thereby allowing the proposed tariff sheet filed by Puget Sound Energy in Docket UG-190218, as revised on April 17, 2019, to become effective May 1, 2019, by operation of law.

Summary of Filing

On September 17, 2018, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) its annual purchased gas adjustment (PGA) in Docket UG-180794. Those PGA rates became effective less than six months ago on November 1, 2018.

On March 29, 2019, PSE filed its proposed tariff Supplemental Schedule No. 106, Deferred Account Adjustment (Tracker), effective May 1, 2019, through April 31, 2021, in Docket UG-190218. The company initially proposed to recover deferred gas costs of approximately $112 million over two years, reflecting the true up of actual revenue collected to actual commodity costs during the 6-month period of September 2018, through February 2019. The proposed annual revenue increase of the initial filing was $58.7 million (6.8 percent).

On April 17, 2019, after discussions with commission staff (staff), PSE filed a replacement tariff page, proposing to recover the deferral balance for the three-month period November 2018 - January 2019, over a one-year period. The updated proposed annual revenue increase is $54 million (6.2 percent). The proposed supplemental tariff schedule is to recover only the backward-looking accumulated commodity costs for November, December, and January, and does not reflect any changes to forward-looking commodity cost assumptions.

Background – Enbridge Rupture

On October 9, 2018, a 36-inch diameter natural gas mainline ruptured near Prince George, British Columbia (BC). The Enbridge pipeline serves markets in Canada, Washington, Oregon, and Idaho with natural gas production from northeastern BC through the Sumas hub. Imports of natural gas at the Sumas hub import point fell to zero after the rupture. This is compared to the first half of 2018 where average daily imports were 1.1 billion cubic feet.[1] Since the rupture, capacity has varied from 0 percent to 92 percent.

Because of this pipeline rupture and associated pipeline capacity constraints, local markets experienced extreme upward price pressure and volatility during the ensuing months, exposing northwest utilities to abnormally high gas costs during cold-weather months. At issue in this filing are the large deferral balances PSE accumulated in the months after the Enbridge rupture.

Discussion

PSE's Revised Proposal

On April 17, 2019, after discussions with commission staff, PSE filed a replacement tariff page, proposing to recover the deferral balance for the three month period November 2018, through January 2019, over a one-year period, rather than recover the deferral balance for the six month period September 2018, through February 2019, over a two year period. Thus, PSE has removed the monthly deferrals for September 2018, October 2018, and February 2019, from this proposed tariff, instead agreeing with staff to discuss the deferrals for these months at a later date.

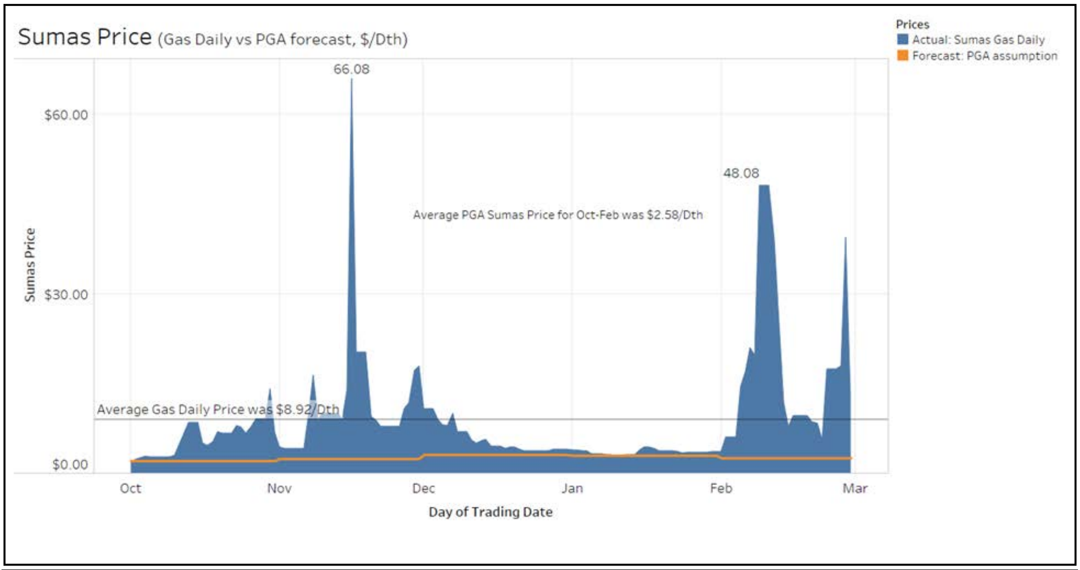
Staff's position is that the deferrals for September and October of 2018, were not extraordinary and do not warrant deviating from standard practice, which is to consider those two months in the subsequent year's PGA filing. The deferral balances for September and October are $(426,318) and $3,554,485, respectively.

Regarding the deferrals for February 2019, a compressor failure at Jackson Prairie during that month impeded PSE's ability to fully utilize its storage resources which, in turn, further exposed PSE to adverse gas markets. The review of the cause of the compressor failure is not yet complete, so a review of the deferrals for February is premature at this time.

Gas Costs

The Enbridge rupture caused PSE to experience a significant increase in gas costs primarily because of the company's exposure to the Sumas market. The Sumas market experienced a high degree of volatility and showed signs of upward price pressure immediately after the contingency. The conditions caused by the October event persisted through December. Prices observed in Sumas during this period deviated significantly from PGA assumed prices.

[1] https://www.eia.gov/todayinenergy/detail.php?id=37312



The rupture also increased PSE's costs through operational flow orders (OFO). While the Enbridge rupture caused flow restriction southward to the Sumas hub, Northwest Pipeline was issuing OFOs in order to maintain pressure on its pipeline. To comply with OFOs on Northwest Pipeline, PSE was required to increase its purchases at Sumas at high market prices. These costs were particularly substantial for the month of November.

Hedging

In the period November 2018, through January 2019, PSE had in place financial hedges and was able to rely on storage withdrawals, which mitigated some of the company's exposure to the unexpected price spike.

It is important to recognize that the Enbridge incident was an unexpected event, and although PSE was afforded some protection with the hedges it had already executed, the company's open positions were subject to suddenly critical market conditions. Staff does not have reason to believe the level of exposure to the market at time of the incident was inappropriate. Moreover, staff does not advocate for increased levels of programmatic hedges to protect against these types of unlikely events. Staff continues to advocate for risk management strategies that protect utilities against various categories of risk, some that are measurable and some that are not. In this case, programmatic hedges offered some protection against the risk of an unforeseeable pipeline rupture.

Rate Impacts

Annual gas cost deferrals have ranged from approximately $100 million in both under or over collection from customers since 2001. The most recent PGA adjustment for gas costs, effective November 1, 2018, was a refund to customers of deferral balances of approximately $58 million (-6.4 percent) in Schedule 101 and $41 million (-4.5 percent) in Schedule 106. PSE's modified request to recover $51 million in deferrals accumulated over November 2018, through January 2019, negates a majority (but not all) of the rate decrease that went into effect November 1, 2018.

The impact of PSE's proposed schedule on a residential customer with average consumption of 64 therms would be an increase of $3.48, from $60.84 to $64.32 per month. The following table provides combined effect of the supplemental rate changes and current approved schedule 106 tracker presenting revenue impact by schedule.

By Customer Class	Schedule 106 Revenue change	% change over total forecasted revenue per schedule
Residential (16,23,53)	$34,804,386	5.73%
Commercial & industrial (31,31T)	$12,982,513	7.24%
Large volume (41,41T)	$3,664,261	8.98%
Interruptible (85,85T)	$865,163	6.29%
Limited interruptible (86,86T)	$490,200	10.85%
Nonexclusive interruptible (87,87T)	$1,200,455	11.38%
Contracts	0	0.00%
Total	$54,006,978	6.25%

Customer Comments

PSE issued customer notice of the proposed rate increase on April 1, 2019. The notice was published in compliance with WAC 480-90-194(2). The customer notice explained that the rate increase was to cover increased commodity costs resulting from a reduction in gas supply caused by the pipeline explosion. No customer comments were received.

Recommendation

In sum, unusually high commodity costs resulted from the Enbridge rupture, creating challenging market conditions largely out of the company's control. Although programmatic hedges and storage resources provided some protection, the company still had significant exposure to the Sumas market.

After reviewing the company's filing, staff finds that the deferrals accumulated during the months of November 2018, December 2018, and January 2019, are appropriate for recovery at this time. Therefore, staff recommends that the commission take no action, allowing the proposed tariff sheet filed by Puget Sound Energy in Docket UG-190218, as revised on April 17, 2019, to become effective May 1, 2019, by operation of law.